

# Chapter 1

## Introduction

In the fall of 1997 Wisconsin began to implement Wisconsin Works (W-2) as a replacement for the Aid to Families with Dependent Children (AFDC) cash assistance program. The program reflects a dramatically different approach to public assistance for low-income families. W-2 emphasizes immediate work or worklike activities as a prerequisite for cash assistance. The fact that assistance does not vary with family size, and that it is directly tied for most participants to their hours of participation, are examples of ways in which W-2 attempts to replicate the “real world of work.” Consistent with this approach, custodial parents participating in W-2 are allowed to keep all child support paid on behalf of their children, and child support income is not considered in calculating the level of cash benefits. Thus, child support is treated the same way as it would be were parents working outside the program. This 100 percent “pass-through” and “disregard” of child support is unique to Wisconsin. The reform is undergoing evaluation, and this report is the fourth comprehensive report completed as part of the Child Support Demonstration Evaluation (CSDE) project.<sup>1</sup>

While earlier CSDE reports focused on W-2 recipients who transferred from AFDC or who started on W-2 in the first 9 months after the program started in September 1997, this report features a comparison of the effects of the full pass-through policy on the earlier cohort of cases from the previous reports and a later cohort of cases which entered W-2 in the first two quarters of 1999.

In this introductory chapter we discuss welfare reform and child support policy, with a particular focus on the W-2 program and the relationship between welfare and child support in Wisconsin. We then describe the CSDE, the sample of participants, and the data sources on which our analysis is based. The final section of this chapter summarizes the major findings of prior CSDE reports. Chapter 2 is a performance analysis, looking at the implementation of the child support demonstration and the implications of that implementation. Experimental effects for two cohorts are reported in Chapter 3. Chapter 4 provides an overall summary and a discussion of policy implications. Appendices include a report on the design of the CSDE experiment, results for cases and time periods not covered in the main report, and a report on the costs of the full pass-through policy to both the state and federal governments.

### **Welfare Reform and Child Support Policy**

Because some children remain poor even when their noncustodial parent pays child support, and because some noncustodial parents do not pay, public assistance is inextricably linked to the child support paid by noncustodial parents. Child support policy has increasingly come to the attention of policy makers. Part of the impetus for this has been the rapid growth in the number of single-parent families: whereas only one child in 12 lived in a mother-only family in 1960, since the early 1990s the proportion has been nearly one in four (U.S. Bureau of the Census, 2001). The public assistance system burgeoned from the 1960s to the 1990s in part because of increases in single-parent families and failures of the child support system to ensure economic security for the children living in these families.

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<sup>1</sup>The first report, *Initial Findings from the W-2 Child Support Demonstration Evaluation* (1999), was superseded by the second report, *W-2 Child Support Demonstration Evaluation, Phase 1, Final Report* (2001). The third report, *W-2 Child Support Demonstration Evaluation, Report on Nonexperimental Analyses* (2002), included analyses not included in the second report.

Another factor increasing the importance of child support policy and its connection to welfare policy is the economic vulnerability of single-parent families. About 30 percent of all mother-only families are poor (U.S. Bureau of the Census, 2002), and even father-only families are more than twice as likely to be poor as husband-wife families (Meyer and Garasky, 1993; Cancian and Reed, 2001). While some separated and divorced parents were poor prior to separation, in many other families the children and custodial parent experience a significant drop in economic well-being after separation, while the noncustodial parent experiences a gain in economic well-being (Bartfeld, 2000). The child support system has been increasingly scrutinized to see if appropriate resources are being transferred to children who are economically vulnerable.

These concerns, combined with increasing costs in the welfare system and concerns about potentially negative effects of welfare, have led to changes in welfare and child support policy. Dramatic changes in the public welfare system took place at the federal level with the passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. PRWORA replaced AFDC with a block grant, Temporary Assistance for Needy Families (TANF), which gives the states considerable freedom in designing their own system of assistance to poor families. Wisconsin had earlier implemented a series of reforms that culminated in an application for a federal waiver to operate a radically different program. PRWORA enabled the state to complete planning and implement the W-2 program without requiring a federal waiver.

The philosophy and structure of W-2 emphasize immediate employment. Under W-2, all participants are placed in one of four tiers of employment or employment experience:

Upper Tiers (no cash assistance)

- Case Management Services – helps the most job-ready applicants find an unsubsidized job on the open market or improve their current job status.
- Trial Jobs – provides work experience in jobs for which the state partially subsidizes the employer.

Lower Tiers (cash assistance)

- Community Service Jobs – jobs assigned by the W-2 agency for which participants receive a monthly W-2 payment of \$673.
- W-2 Transition – is for those least able to work, either because of their own disability or because of the need to care for a child with a disability. Its participants receive a monthly W-2 payment of \$628.

In addition to these four tiers, Caretaker of Newborn provides, for parents caring for a child under 13 weeks old, a monthly payment of \$673 and exemption from work requirements.

Assistance is also available for child care and health care. Families with incomes up to 185 percent of the federal poverty line, regardless of participation in any of the W-2 tiers, may receive assistance with their child care costs. Child care assistance requires a participant copayment, the level of which is based on family income and on the number of children in care. The copayments are structured

so as not to exceed 16 percent of family income<sup>2</sup> and to be 30 percent lower for child care receiving county-level “certification” than for child care fully licensed by the state. Medicaid (“Medical Assistance” in Wisconsin) eligibility is available for family members in cases receiving a cash payment (that is, cases in the two lower levels of W-2) and other W-2 participants based on income. Even prior to implementation of the statewide BadgerCare<sup>3</sup> program on July 1, 1999, most people who left the lower tiers of W-2 continued to be eligible for Medicaid for up to one year. Pregnant women and children below age 6 are eligible for Medicaid if the family income is less than 185 percent of the poverty line. Most older children are Medicaid-eligible at incomes below 100 percent of the poverty line. Under BadgerCare, all members of families with incomes below 200 percent of the poverty line and without health insurance through an employer are eligible for Medicaid services; those with incomes above 150 percent of the poverty line must pay a monthly premium of 3 percent of family income.

Under AFDC, all child support paid on behalf of welfare recipients in excess of \$50 per month was retained to reimburse the government for welfare expenses; the money was split between federal and state governments based on the formula for splitting Medicaid costs. TANF allows states substantial flexibility regarding the handling of child support paid on behalf of families receiving assistance. Most states now retain all child support; others continue to have a \$50 per month pass-through. In contrast, in Wisconsin implementation of the W-2 program coincided with a dramatic shift in the interface between the child support system and the provision of public assistance. Under Wisconsin’s policy *the full amount of current child support paid is distributed to custodial-parent families and does not affect the level of the TANF check they receive*. In the *W-2 Child Support Demonstration Evaluation, Phase 1, Final Report* (2001), we found that among mothers in the experimental group who received any child support, the average amount received was around \$150 per month. Thus, those in a position to benefit from the full pass-through generally receive considerably more than \$50 per month.

At least three approaches to the interface between the child support system and policies surrounding public income support to families with children are possible. *First*, the policy could be to provide public support and to collect any private support paid on behalf of the family, using all private support to offset public costs. This was the policy in effect in some cases prior to 1984.<sup>4</sup> This policy may, however, discourage noncustodial parents from paying support, because none of their payments go directly to their children. Moreover, custodial parents and noncustodial parents would have an incentive to cooperate with each other and *not* to cooperate with the formal system: if any support received from a noncustodial parent is hidden from the child support system, all support would benefit the children of a noncustodial parent, and custodial-parent families could keep both public and private support.

These negative consequences might be alleviated by a *second* approach, passing through a portion of the private support to custodial parents. This was federal policy from 1984 to 1996, when \$50 per month was passed through to the custodial parent. This policy removes some of the disincentive for

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<sup>2</sup>In 1999, maximum copayments were reduced to 12% of family income.

<sup>3</sup>BadgerCare is a health insurance program for low-income working families which uses funding from the State Child Health Insurance Program and Medicaid programs (under a demonstration waiver) to provide medical coverage to the children and parents in these families.

<sup>4</sup>As early as 1976, U.S. policy was to pass through to the family the first \$50 per month collected in child support and to disregard this amount in the calculation of AFDC benefits. However, the provision was not universally implemented until 1984, so prior to that date some cases received no pass-through.

noncustodial parents to pay and increases the incentive for custodial and noncustodial parents to cooperate in compliance, and thus could increase formal payments. While little empirical research has been conducted on the effects of the pass-through prior to the CSDE, anecdotal evidence and ethnographic research (Johnson and Doolittle, 1998) suggest that \$50 per month may not be a large enough incentive to encourage cooperation. Research has indicated that some parents strategically collaborate: in exchange for the custodial parent not providing information on the noncustodial parent, the noncustodial parent agrees to pay child support informally, which allows the custodial parent to keep all child support paid (Edin, 1995).

The *third* possible policy would be to ensure that all custodial parents who receive public cash payments receive all of the child support paid on their behalf. This means passing through all child support paid, and disregarding the entire amount in the calculation of cash payments. This policy should remove most of the disincentives for noncustodial parents to pay through the formal system, thus increasing formal payments. The increase in formal payments may lead to increased payments if the formal system can ensure more regular payments or if formal payments are more likely to continue when informal payments would have stopped. The policy may also increase the proportion of children for whom paternity is formally established.

As discussed further below, the third option might also be expected to reduce the need for custodial parents to participate in Food Stamps and Medicaid, to promote earnings among custodial parents, to increase contact between noncustodial parents and their children, and eventually to improve other aspects of children's well-being. Moreover, this policy would be consistent with the way child support is treated among those not receiving cash assistance (where all support is passed through to the family), making the income support system more consistent with the way the working world operates. Another benefit derives from lower administrative costs in the child support system that result from a simpler system. The ultimate fiscal implications of a policy to pass through all child support will depend on the extent to which the beneficial effects compensate for the loss in revenue previously collected from child support payments to families receiving public support. The cost will also depend on the extent to which low-income parents choose to receive TANF payments if they can also retain child support.

### **The W-2 Child Support Demonstration Evaluation: Design and Data Sources**

The state of Wisconsin is unique in pursuing the third option, passing through all child support to custodial-parent families and disregarding the entire amount in the calculation of TANF payments. An evaluation of the pass-through policy in Wisconsin is particularly important because PRWORA allows states to set their own pass-through and disregard policies. Wisconsin is currently the only state choosing to provide a full pass-through and disregard of child support payments. Minnesota currently provides a full pass-through of child support, but the TANF check is being adjusted dollar-for-dollar (no child support is disregarded), so total income is the same for welfare recipients whether child support is paid or not. Connecticut also provides a full pass-through, but only disregards \$50 in calculation of the TANF check.

The majority of states have discontinued the pass-through. All states continuing the pass-through are maintaining the \$50 level, except Nevada (\$75) and Wisconsin (Roberts and Jordan, 2002). The Wisconsin policy offers an opportunity to evaluate the potential advantages and disadvantages of this new approach to child support, and the evaluation could be important in helping other states determine which approach to take.

From October 1997 through June 2002, the child support component of W-2 was operated as a waiver demonstration program with a required evaluation based on the random assignment of participants to experimental and control groups. Cases in the experimental group received all child support paid on their behalf (referred to as a 100 percent pass-through). Cases in the control group received a reduced pass-through when they were in a W-2 Transition, Caretaker of Newborn, or Community Service Job tier, but not when they were in the two upper job tiers.<sup>5</sup> Under this policy, the state gives up its share of current support (\$50 per month or 41 percent of payment, whichever is greater) and passes it through to the family. The federal share (the remainder) is retained for the federal government.<sup>6</sup> After random assignment ended in July 2000, all new W-2 cases received the full pass-through. Beginning in July 2002, all cases, including those initially assigned to the control group, receive the full pass-through.

As discussed in Chapter 3, an error in Wisconsin's public assistance information system, Client Assistance for Re-employment and Economic Support (CARES), inadvertently resulted in failure to assign any cases to the control group in Milwaukee County beginning July 9, 1998. As a result, extremely few cases were assigned to the control group in Milwaukee during the July–September 1998 quarter and none in October–December 1998. In order to preserve a balanced design between Milwaukee and the remainder of the state, the analysis sample for Phase 1 of the study (as distinguished from Phase 2, reported here) was limited to Cohort 1, cases that entered W-2 before July 9, 1998. Random assignment started again in January 1999, continuing through June 1999, thus creating a second statewide cohort of cases. An additional cohort consists of non-Milwaukee cases that were assigned during the interim between random-assignment failure and restart.

In this report, the fourth comprehensive impact report, we present findings for the two statewide cohorts of cases. We evaluate the impact of the full pass-through and disregard on outcomes including paternity establishment; child support orders, payment, and receipt; use of W-2 and related programs; and parents' earnings.<sup>7</sup> The report also includes a performance analysis, considering the implementation of the child support demonstration, and the implications of that implementation. The data analyzed for this report were drawn from administrative records contained in CARES and in the child support information system, Kids Information Data System, or KIDS. We also analyze earnings data from the Unemployment Insurance system. More detail on data samples can be found in Appendix 1.

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<sup>5</sup>A third group of cases, though not originally included in the evaluation, also received a full pass-through. In the analysis that follows, as in prior reports, we have combined this other full pass-through group with the experimental group in order to increase the sample size. Both groups are subject to the same policy. Including these cases improves the accuracy of our estimates for those subject to the full pass-through. Comparison of characteristics and outcomes between the experimental and other full pass-through groups show no significant differences, as expected. Throughout the remainder of this report, we use the term “experimental group” to refer to all cases subject to the full pass-through policy.

<sup>6</sup>This makes the formula for the amount passed through as follows: if the noncustodial parent pays from 0–\$50 per month, the entire amount is passed through; if the noncustodial parent pays \$51–\$121, \$50 is passed through; if the noncustodial parent pays \$122 or more, 41 percent is passed through, because 41 percent of \$122 is more than \$50.

<sup>7</sup>Some other outcomes evaluated in the past (fathers' contact with their children, child well-being, etc.) require survey data. In this report we use information from administrative records, as no survey was completed with the most recent cohort.

In May 2002 the Department of Workforce Development discovered that, beginning in September 2000, some cases in the control group had inadvertently received the full pass-through. This error is discussed in detail in Appendix 1. Because of the number of cases affected, and the inability to eliminate cases in such a way that the integrity of the original random-assignment design is assured, our primary analysis was done using only data prior to this error. The longest follow-up period available for all cases in both cohorts is the first year following the quarter of entry. This is our period of analysis. Longer-term outcomes are shown in Appendix 3.

## Review of Earlier Findings

Because assignment to the experimental (full pass-through) and control (partial pass-through) groups was random, any differences in outcomes between the two groups can be attributed to the difference in the treatment of child support. The CSDE was designed to evaluate a variety of impacts of this new approach to child support. In addition to the direct effects of the new policy on child support paid and received, we have also tried to measure a wide range of potential secondary effects—on mothers' and fathers' employment and earnings, on parents' interactions, and on the well-being of their children. To evaluate these effects we use the state's administrative records and a survey of W-2 families.

In our second report, *W-2 Child Support Demonstration Evaluation, Phase 1: Final Report* (April 2001), we found substantial evidence of the expected direct effects in the first cohort of cases. In 1998, mothers eligible for the full pass-through received about \$150 more in child support than did those in the control group. Among those initially in a lower tier (and thus subject to a reduced pass-through if they were in the control group), the difference was about \$200. Differences were somewhat smaller, but remained significant, in 1999. Although these differences in amounts of child support received by mothers are due in large part to the mechanical effect of the full pass-through, we also found significant increases in the percentage of noncustodial fathers paying child support. Among those more likely to be new to the child support and welfare systems, the differences were more substantial. The differences remained significant and in many cases increased in 1999. Finally, we also found significantly higher rates of paternity establishment for those in the experimental group in 1998, although the difference declined and was not statistically significant for most groups in 1999.

As expected, we found less consistent evidence of secondary effects, although in selected areas there was substantial evidence that the experiment had the expected impact. We hypothesized that an increase in child support received would reduce the need for cash payments. We found evidence of this effect in 1998, with significant and larger differences among those mothers who received a W-2 cash payment and among mothers with a history of higher child support amounts. We also found some evidence of the expected effects on noncustodial fathers' informal employment: fathers with children in the experimental group appeared to be substantially less likely to have informal earnings.

In other areas we found little consistent evidence of an experimental impact. There were few significant impacts on mothers' employment or earnings, perhaps because increases in child support receipt were not sufficiently large to have such secondary effects, or perhaps because the increase in child support simultaneously helped facilitate employment and reduced the incentive to work. We found few consistent impacts on child well-being—although there was some evidence of fewer health limitations and improved educational outcomes for children in the experimental group. Most measures of noncustodial fathers' relationships with the mother and child revealed few differences among the two

groups. However, we found some evidence of higher informal transfers made by fathers in the experimental group, suggesting that formal and informal transfers are complements.

Finally, while we found significant differences in some of the components of total government costs, we found no difference in overall government costs. Although more child support is passed through to those in the experimental group, not all of this is at the expense of the government, since some consists of additional support that would not have been paid in the absence of the full pass-through. More important, the reform also generated cost savings in other areas, especially W-2 cash payments.

An additional report, *W-2 Child Support Demonstration Evaluation, Report on Nonexperimental Analyses* (March 2002), presented three quantitative nonexperimental analyses, including some national-level data, and compared them to the experimental results.

The results of the quantitative nonexperimental analyses, taken as a whole, support the conclusion that increasing the child support pass-through and disregarding it in the calculation of cash payments will increase the payment and receipt of child support. The experimental analysis suggests that paternity establishment proceeds more quickly for children eligible for a full pass-through. This finding is supported by the nonexperimental analyses, which suggest a positive relationship between pass-through levels and paternity establishment.<sup>8</sup>

Before discussing the evaluation approach in more depth, we begin with a review of implementation of the child support reform.

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<sup>8</sup>The nonexperimental report also included a summary of information on fathers gathered from administrative and survey data, as well as an ethnographic study of African American fathers. The summary of information on fathers suggests that most of these fathers have limited economic resources and often face substantial barriers to providing for themselves and their families. The ethnographic study considers many of the same issues addressed by other parts of the evaluation, but provides the details and depth that allow a fuller understanding of the situations of a group of fathers.